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**DETERMINANTS OF TAX NON-COMPLIANCE BEHAVIOUR  
OF BUSINESS INCOME EARNERS IN SHAH ALAM**

**BY**



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**UUM**  
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**Thesis Submitted to  
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(International Accounting)**



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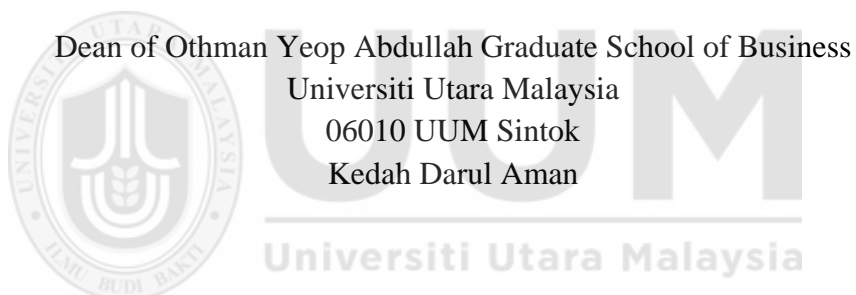
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## ABSTRACT

Tax authorities around the world continuously attempt to improve the level of tax compliance including Inland Revenue Board of Malaysia (IRBM) by combating tax non-compliance. IRBM defines tax non-compliance as the failure of an individual or an entity to register, submit tax forms within a prescribed time period, report the correct amount of income, and pay taxes. Previous studies confirmed that most individual category taxpayers are involved with tax non-compliance activities, however not many studies covered this issue in Malaysia especially on individuals who are business income earners. Thus, this study empirically investigates the influence of tax knowledge, tax morale and tax complexity on tax non-compliance behaviour of business income earners in Shah Alam. This study is supported by behavioural decision theory and theory of cognitive conflict. The data was collected through survey questionnaires and analysed using multiple regression analysis and other statistical techniques. A total of 500 questionnaires were distributed that yielded 328 usable questionnaires. The results reveal that there is a positive significant relationship between tax knowledge, tax morale and tax complexity on tax non-compliance behaviour of business income earners. This study concludes with the theoretical implications and practical recommendations for IRBM in order to improve tax collection such as developed and implement more stringent enforcement strategies to combat tax non-compliance in Malaysia. In addition, IRBM should play a more proactive role to encourage and educate business income earners by enhancing their knowledge on taxation. This study also highlights several limitations and suggests future studies in this area.

**Keywords:** tax non-compliance, business income earners, tax knowledge, tax morale, tax complexity

## ABSTRAK

Pihak berkuasa cukai di seluruh dunia terus berusaha meningkatkan tahap pematuhan cukai termasuk Lembaga Hasil Dalam Negeri Malaysia (LHDNM) dengan memerangi ketidakpatuhan cukai. LHDNM mentakrifkan ketidakpatuhan cukai sebagai kegagalan individu atau entiti untuk mendaftar, mengemukakan borang cukai dalam tempoh masa yang ditetapkan, melaporkan jumlah pendapatan yang betul, dan membayar cukai. Kajian terdahulu menegaskan bahawa kebanyakan pembayar cukai kategori individu terlibat dengan aktiviti ketidakpatuhan cukai, namun tidak banyak kajian mengenai isu ini di Malaysia terutamanya ke atas individu yang berpendapatan perniagaan. Oleh itu, kajian ini secara empirikal menyiasat pengaruh pengetahuan cukai, moral cukai dan kerumitan cukai ke atas gelagat ketidakpatuhan cukai oleh golongan berpendapatan perniagaan di Shah Alam. Kajian ini disokong oleh teori gelagat keputusan dan teori kognitif konflik. Data dikumpul melalui soal selidik dan dianalisa dengan analisis regresi berganda dan teknik-teknik statistik lain. Sebanyak 500 soal selidik diedarkan yang menghasilkan 328 soal selidik yang boleh digunapakai. Keputusan mendapati bahawa terdapat hubungan positif yang signifikan antara pengetahuan cukai, moral cukai dan kerumitan cukai terhadap gelagat ketidakpatuhan cukai golongan berpendapatan perniagaan. Kajian ini merumuskan dengan implikasi teori dan cadangan praktikal bagi LHDNM untuk meningkatkan kutipan cukai seperti membangunkan dan melaksanakan strategi penguatkuasaan yang lebih ketat untuk memerangi isu ketidakpatuhan cukai di Malaysia. Di samping itu, LHDNM perlu memainkan peranan yang lebih proaktif untuk menggalakkan dan mendidik golongan berpendapatan perniagaan dengan meningkatkan pengetahuan cukai mereka. Kajian ini juga menunjukkan beberapa batasan dan mencadangkan kajian masa depan dalam bidang ini.

**Kata kunci:** ketidakpatuhan cukai, golongan berpendapatan perniagaan, pengetahuan cukai, moral cukai, kerumitan cukai



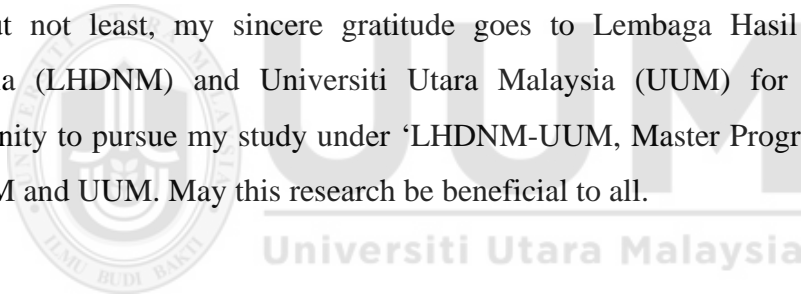
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## LIST OF ABBREVIATIONS

ANOVA	Analysis of variance
ATO	Administrator Office of Australia Tax
BDT	Behaviour Decision Theory
BERNAMA	The Malaysian National News Agency
DV	Dependent Variable
GDP	Gross Domestic Product
GST	Good and Services Tax
HMRC	Her Majesty's Revenue and Custom
ICT	Information and Communication Technologies
IRBM	Inland Revenue Board of Malaysia
IRS	The U.S. Internal Revenue Services
ITRF	Income Tax Return Form
IV	Independent Variable
KMO	Kaiser-Meyer-Olkin
MBSA	Majlis Bandaran Shah Alam
MTD	Monthly Tax Deduction
RMCD	Royal Malaysia Custom Department
RM	Ringgit Malaysia
SAS	Self-Assessment System
ITA	Income Tax Act
SME	Small Medium Enterprise
SPM	Sijil Pelajaran Malaysia
SPSS	Statistical Package for the Social Science
SST	Sales and Services Tax
STD	Schedule Tax Deduction
STPM	Sijil Tinggi Pelajaran Malaysia
TCC	Theory of Cognitive Conflict
UUM	Universiti Utara Malaysia

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Introduction**

Tax plays an important role in any country to enhance its economic growth and national development. In Malaysia, taxes can be categorised into two types i.e. direct and indirect taxes. The direct tax is administered by the IRBM which includes corporate tax, petroleum tax, individual tax, stamp duty, real property gains tax and other taxes. In 2016, the IRBM collected direct taxes amounting to RM109,608 billion, contributing to 51.59% of the total estimated Federal Government Revenue of RM212,421 billion. On the other hand, the indirect taxes which at present is administered by the Royal Malaysia Customs Department (RMCD) includes import duty, excise duty and goods and services tax. In 2016, the RMCD collected indirect taxes amounting to RM59,735 billion, contributing to 16.9% of the total estimated Federal Government revenue of RM 212,421 billion (Ayob, 2017).

As noted by Lymer & Oats (2009) the rationale for the imposition of tax is intended for the government to finance expenditures and development as well as balancing the income gap between high-income and low-income earners. Tax collection is one of the major and most important contributors to the country's revenue. It is utilized by the government to finance and sustain the country and its communities such as funding schools, government administration, development of infrastructure, welfare programs and many more. Taxes also help to ensure a country's competitiveness in the global economy. Although, in general, according to Saad (2012), tax is something

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**Pusat Pengajian Perakaunan  
Tunku Puteri Intan Safinaz**

TUNKU PUTERI INTAN SAFINAZ SCHOOL OF ACCOUNTANCY

**Universiti Utara Malaysia**

Dear respondents,

I am a postgraduate student from Universiti Utara Malaysia (UUM) and currently conducting a study for my Master of Science (International Accounting). I would like to invite you to participate in this survey '**A study on Business Income Earners in Shah Alam**'. There are 3 sections in this questionnaire which will take approximately 10 minutes to be completed.

Your participation in this survey is completely anonymous. Your responses will be strictly kept confidential and data collected from this survey will be reported for academic purpose only. Your participation in this survey is highly appreciated. Do not hesitate to contact me if you have any enquiries regarding this survey.

Yours Sincerely,

.....  
Zahrul Zaid Bin Abdul Wahab  
012-7088607  
[zzekry@yahoo.com](mailto:zzekry@yahoo.com)





**Pusat Pengajian Perakaunan  
Tunku Puteri Intan Safinaz**  
TUNKU PUTERI INTAN SAFINAZ SCHOOL OF ACCOUNTANCY  
**Universiti Utara Malaysia**

*Tuan/ Puan yang dihormati,*

*Saya seorang pelajar siswazah dari **Universiti Utara Malaysia (UUM)** dan kini sedang menjalankan satu kajian untuk Master of Science (Perakaunan Antarabangsa). Saya ingin mendapatkan kerjasama anda untuk mengambil bahagian dalam kaji selidik iaitu '**Kajian ke atas golongan berpendapatan perniagaan di Shah Alam**'. Terdapat 3 bahagian dalam kaji selidik ini dan ia akan mengambil masa lebih kurang 10 minit untuk diselesaikan.*

*Penyertaan anda dalam kaji selidik ini adalah secara sukarela. Jawapan anda adalah sulit, dirahsiakan dan data yang dikumpulkan daripada kajian ini akan dilaporkan bagi tujuan akademik sahaja. Penyertaan anda dalam kajian ini amat dihargai. Sila hubungi saya sekiranya anda mempunyai sebarang pertanyaan lanjut berkaitan dengan kajian ini.*

*Yang ikhlas,*

.....  
Zahrul Zaid bin Abdul Wahab  
012-7088607  
[zzekry@yahoo.com](mailto:zzekry@yahoo.com)

This section relates to personal background. Kindly tick “✓” in the appropriate box that represents your response.

*Bahagian ini berkaitan dengan latar belakang peribadi. Sila tandakan “✓” di kotak berkenaan yang mewakili jawapan anda.*

☐ Other – please describe:  
Lain-lain – sila nyatakan:

**7. Business operating period**

*Tempoh operasi perniagaan:*

- ☐ 1 – 5 years/ *tahun*
- ☐ 6 – 10 years/ *tahun*
- ☐ More than 10 years/ *Lebih 10 tahun*

**8. Business performance for the past 3 years**

*Prestasi perniagaan bagi tempoh 3 tahun kebelakangan*

Year/ Tahun 2015	<input type="checkbox"/>	Untung/ Profit	<input type="checkbox"/>	Rugi/ Losses
Year/ Tahun 2014	<input type="checkbox"/>	Untung/ Profit	<input type="checkbox"/>	Rugi/ Losses
Year/ Tahun 2013	<input type="checkbox"/>	Untung/ Profit	<input type="checkbox"/>	Rugi/ Losses

**9. Are you currently a registered taxpayer?**

*Adakah anda berdaftar sebagai pembayar cukai?*

- ☐ Yes/ *Ya*
- ☐ No/ *Tidak*

**If your answer is NO, please provide reason.**

*Jika jawapan anda adalah TIDAK, sila beri alasan:*

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**10. Who filled in your last tax return form?**

*Siapa yang melengkapkan borang nyata cukai anda terkini?*

- |  |   |
|--|---|
| <input type="checkbox"/> Self/ Sendiri         | <input type="checkbox"/> Friend/ Rakan          |
| <input type="checkbox"/> Spouse/ Pasangan      | <input type="checkbox"/> Others (please verify) |
| <input type="checkbox"/> Tax agent/ Ejen cukai | <i>Lain-lain – sila nyatakan:</i>               |

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**Section B: Tax Non-Compliance***Bahagian B: Ketidakpatuhan Cukai*

Please indicate the extent of your agreement or disagreement with the following statements.

Kindly tick “✓” in the appropriate box.

Sila nyatakan tahap setuju atau tidak setuju anda dengan kenyataan berikut. Sila tandakan “✓” di kotak yang berkenaan.

Part 1: Tax Non-Compliance Overall <i>Bahagian 1: Ketidakpatuhan Cukai Secara Umum</i>		Strongly Disagree <i>Sangat Tidak Setuju</i>	Disagree <i>Tidak Setuju</i>	Neutral	Agree <i>Setuju</i>	Strongly Agree <i>Sangat Setuju</i>
1	Overall, I think income tax system in Malaysia is fair. <i>Secara keseluruhan, saya berpendapat sistem cukai pendapatan di Malaysia adalah adil.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Overall, the system of tax administration in Malaysia is efficient and effective. <i>Secara keseluruhan, sistem pentadbiran cukai di Malaysia adalah cekap dan berkesan.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Overall, current tax law in Malaysia is not complex. <i>Secara keseluruhannya, undang-undang cukai semasa dalam Malaysia tidak kompleks/ rumit.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Overall, current tax system is not induces me to non-compliant. <i>Secara keseluruhan, sistem cukai semasa tidak mendorong saya untuk tidak patuh.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Overall, I think the amount of income tax that I have paid is too high. <i>Secara keseluruhan, saya berpendapat jumlah cukai pendapatan yang telah bayar terlalu tinggi.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Overall, paying taxes is reducing my personal income. <i>Secara keseluruhan, membayar cukai mengurangkan pendapatan peribadi saya.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Part 2: Tax Moral

### Bahagian 2: Moral Cukai

		Strongly Disagree <i>Sangat Tidak Setuju</i>	Disagree <i>Tidak Setuju</i>	Neutral	Agree <i>Setuju</i>	Strongly Agree <i>Sangat Setuju</i>
1	I would cheat on tax if I have the chance. <i>Saya akan menipu pelaporan cukai jika saya mempunyai peluang.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	It is NOT wrong if a taxpayer does not report all of his or her income in order to pay less income tax. <i>TIDAK menjadi kesalahan jika seseorang pembayar cukai tidak melaporkan semua pendapatannya dengan niat untuk membayar cukai yang rendah.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	I would not feel guilty if I excluded some of my income when completing my tax return. <i>Saya berasa tidak bersalah jika tidak melaporkan sebahagian pendapatan saya semasa melengkapkan borang cukai.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Since the supporting documents do not need to be submit to the IRBM, I can manipulate the figures in the tax return. <i>Oleh kerana dokumen sokongan tidak perlu dihantar kepada LHDNM, saya boleh memanipulasi angka dalam borang cukai.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Part 3: Tax Knowledge

### Bahagian 3: Pengetahuan Cukai

		Strongly Disagree <i>Sangat Tidak Setuju</i>	Disagree <i>Tidak Setuju</i>	Neutral	Agree <i>Setuju</i>	Strongly Agree <i>Sangat Setuju</i>
1	To my knowledge, only the business income should be reported, other income such as rental and commission with small amount not need to reported. <i>Sepengetahuan saya, hanya pendapatan perniagaan sahaja perlu dilaporkan, lain-lain pendapatan seperti sewa dan komisen yang berjumlah kecil tidak perlu dilaporkan.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	To my knowledge, records/documents pertaining to income and expenditure NOT should be kept for a period of seven years after submission of the Tax Return. <i>Setahu saya, rekod dan dokumen berkaitan pendapatan dan perbelanjaan TIDAK perlu disimpan selama tempoh 7 tahun selepas penghantaran borang cukai.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### Part 3: Tax Knowledge (Continue)

Bahagian 3: Pengetahuan Cukai (sambungan)

		Strongly Disagree <i>Sangat Tidak Setuju</i>	Disagree <i>Tidak Setuju</i>	Neutral	Agree <i>Setuju</i>	Strongly Agree <i>Sangat Setuju</i>
3	Tax must be reported and paid to the IRBM when the business have profit only. <i>Cukai perlu dilaporkan dan dibayar kepada LHDNM apabila terdapat keuntungan sahaja.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	To my knowledge, my personal expenditure could be claim or included in the business expenditure. <i>Setahu saya, perbelanjaan peribadi saya boleh dituntut atau dimasukkan dalam perbelanjaan perniagaan.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	I do not register/ report my business income as a taxpayer to the IRBM because the profitability of my business is small or my business has just started. <i>Saya tidak mendaftar/ melaporkan pendapatan perniagaan kepada LHDNM kerana keuntungan perniagaan saya kecil atau perniagaan saya baharu dimulakan.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Responsibility to deduct the Monthly Tax Deduction (MTD) to each employee is NOT the responsibility of the business owner. <i>Tanggungjawab membuat Potongan Cukai Berjadual (PCB) kepada setiap pekerja BUKAN tanggungjawab pemilik perniagaan</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### Part 4: Tax Complexity

Bahagian 4: Kerumitan Cukai

		Strongly Disagree <i>Sangat Tidak Setuju</i>	Disagree <i>Tidak Setuju</i>	Neutral	Agree <i>Setuju</i>	Strongly Agree <i>Sangat Setuju</i>
1	IRBM tax laws are too complex and change frequently. <i>Undang-undang percukaian LHDNM terlalu rumit dan kerap berubah.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	I think the <b>TERMS</b> used in tax publication (eg. IRBM guide books/note) and in tax return forms are difficult and burden to understand. <i>Saya berpendapat bahawa <b>UNGKAPAN</b> yang digunakan dalam bahan cetakan cukai (seperti buku/nota panduan dan penerangan LHDNM) dan Borang Nyata Cukai sukar dan terlalu banyak untuk difahami</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<b>Part 4: Tax Complexity (Continue)</b> <i>Bahagian 4: Kerumitan Cukai (Sambungan)</i>		<b>Strongly Disagree</b> <i>Sangat Tidak Setuju</i>	<b>Disagree</b> <i>Tidak Setuju</i>	<b>Neutral</b>	<b>Agree</b> <i>Setuju</i>	<b>Strongly Agree</b> <i>Sangat Setuju</i>
3	The rules and regulations to file tax return form is complicated and burdensome. <i>Kaedah-kaedah dan peraturan-peraturan untuk memfailkan borang nyata cukai adalah rumit dan membebankan.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	I have problem with completing and filing the income tax return form (ITRF). <i>Saya menghadapi masalah untuk mengisi dan menyerahkan Borang Nyata Cukai (BNCP).</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	I think it is difficult to keep all records relating to the year for tax purposes. <i>Saya rasa memang sukar untuk menyimpan semua rekod yang berkaitan sepanjang tahun bagi tujuan cukai.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	My businesses need to pay double taxation of income tax and Good & Service Tax (GST). <i>Perniagaan perlu bayar cukai berganda iaitu cukai pendapatan dan Cukai Barangan &amp; Perkhidmatan (GST).</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Thank you  
Terima kasih